

Tax Issues Related to Deteriorating Concrete Foundations Caused by the Mineral Pyrrhotite

Call in number: 1.888.331.8226

Access code number: 2240201

Commissioner's letter dated 11/20/19

As used in 6401, the term “gains, profits and income” means gross income and not the gross amount paid. Section 6401 does not generally require a payor to file or furnish a Form 1099 for payments that are not includable in the recipient's income. Further a payor is not required to file or furnish a Form 1099 if the payor does not have a basis to determine the amount of the payment that the recipient should include in gross income.

Basis of Assets

- Basis is generally the amount of your capital investment in property for tax purposes.
- In most situations, the basis of an asset is its cost to you. The cost is the amount you pay for it in cash, debt obligations, and other property or services.

IRS Tax Topic 703 Basis of Assets (on www.irs.gov)

Calculating Adjusted Basis

Table 1. **Examples of Increases and Decreases to Basis**

<u>Increases to Basis</u>	<u>Decreases to Basis</u>
Capital improvements: Putting an addition on your home Replacing an entire roof Paving your driveway Installing central air conditioning Rewiring your home Assessments for local improvements: Water connections Sidewalks Roads Casualty losses: Restoring damaged property Legal fees: Cost of defending and perfecting a title Zoning costs	Exclusion from income of subsidies for energy conservation measures Casualty or theft loss deductions and insurance reimbursements Certain vehicle credits Section 179 deduction Depreciation Nontaxable corporate distributions

IRS
Publication
551 page 5

Examples of Improvements That Increase Basis

Keep for Your Records



Additions Bedroom Bathroom Deck Garage Porch Patio	Systems Heating system Central air conditioning Furnace Duct work Central humidifier Central vacuum Air/water filtration systems Wiring Security system Lawn sprinkler system
Lawn & Grounds Landscaping Driveway Walkway Fence Retaining wall Swimming pool	
Exterior Storm windows/doors New roof New siding Satellite dish	Plumbing Septic system Water heater Soft water system Filtration system
Insulation Attic Walls Floors Pipes and duct work	Interior Built-in appliances Kitchen modernization Flooring Wall-to-wall carpeting Fireplace

IRS Publication 523 page 9

Examples of improvements you CAN'T include in your basis.

- Any costs of repairs or maintenance that are necessary to keep your home in good condition but don't add to its value or prolong its life. Examples include painting (interior or exterior), fixing leaks, filling holes or cracks, or replacing broken hardware.
- Any costs of any improvements that are no longer part of your home (for example, wall-to-wall carpeting that you installed but later replaced).
- Any costs of any improvements with a life expectancy, when installed, of less than 1 year.

IRS Publication 523 page 9

Calculating the Decrease in Fair Market Value

You can use the cost of cleaning up or of making repairs after a casualty as a measure of the decrease in FMV if you meet all the following conditions.

- The repairs are actually made.
- The repairs are necessary to bring the property back to its condition before the casualty.
- The amount spent for repairs isn't excessive.
- The repairs take care of the damage only.
- The value of the property after the repairs isn't, due to the repairs, more than the value of the property before the casualty.

IRS Publication 547 Pages 6 & 7

Calculating the Decrease in Fair Market Value

The cost of restoring landscaping to its original condition after a casualty may indicate the decrease in FMV. You may be able to measure your loss by what you spend on the following.

- Removing destroyed or damaged trees and shrubs, minus any salvage you receive.
- Pruning and other measures taken to preserve damaged trees and shrubs.
- Replanting necessary to restore the property to its approximate value before the casualty.

IRS Publication 547 Page 7

Calculating your casualty loss

Figure the amount of your loss using the following steps.

- 1) Determine your adjusted basis in the property before the casualty.
- 2) Determine the decrease in fair market value (FMV) of the property as a result of the casualty.
- 3) From the smaller of the amounts you determined in (1) and (2), subtract any insurance or other reimbursement you received or expect to receive.

\$100 Rule

- You must reduce each casualty or theft loss by \$100 when figuring your deduction. Apply this rule to personal-use property after you have figured the amount of your loss.

IRS Publication 547 page 9

10% Rule

- You must reduce your total casualty loss by 10% of your adjusted gross income. Apply this rule to personal-use property after you reduce each loss by \$100 (the \$100 rule).

IRS Publication 547 page 9

Postponement of Gain - Example

- In 1970, you bought an ocean-front cottage for your personal use at a cost of \$18,000. You made no further improvements or additions to it.
- When a storm destroyed the cottage this January, the cottage was worth \$250,000. You received \$146,000 from the insurance company in March. You had a gain of \$128,000 ($\$146,000 - \$18,000$).
- You spent \$144,000 to rebuild the cottage. Since this is less than the insurance proceeds received, you must include \$2,000 ($\$146,000 - \$144,000$) in your income.

IRS Publication 547 pages 13 & 14

Reimbursement Received After Deducting Loss

- If you have already taken a deduction for a loss and you receive the reimbursement in a later year, you may have to include the gain in your income for the later year.
- Include the gain as ordinary income up to the amount of your deduction that reduced your tax for the earlier year.
- You may be able to postpone reporting any remaining gain.

IRS Publication 547 page 10